

# **Development Issues in Pakistan: Unlocking the Secrets of Long Term Sustainable Growth**

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## **Introduction:**

Pakistan, a South Asian country bordered by Afghanistan, India, Iran and China, the Islamic Republic of Pakistan gained independence along with India, from British rule in 1947 capitalizing on the losses suffered by the British in the aftermath of the Second World War. India and Pakistan, separate nation states created on the basis of religious segregation, Pakistan had been established as a haven for Muslims in the Indian subcontinent, causing a great levels of human factor movement between the two countries at the time of partition. Pakistan itself was split into two nations in 1971 with West Pakistan becoming Pakistan, and East Pakistan becoming Bangladesh. Today, over 97% of Pakistan's population is Muslim, with the other 3% predominantly Hindu and Christian.

Pakistan is one of the ten most populous nations in the world, with its population estimated at around 159 million ([www.wikipedia.org](http://www.wikipedia.org)). Not only does the huge population contribute to the poverty in the nation, but also due to its agricultural background, the conservative Islamic views of the populace, low literacy rates (especially in women), have all hindered its progress and growth initiatives over time. While the nation has only been in existence a short amount of time, Pakistan has had the potential to achieve far more than it has in the past 58 years, given the colonization by the British whose infrastructure and system of government has greatly influenced Pakistan over the years. That being said, however, Pakistan has been involved in three land wars so far with neighboring India, in 1947-48, 1965 and 1971, which has had devastating impacts on its economy right from the outset. The wars themselves revolved around the northern province of Kashmir (which both nations lay claims to), and ended with the independence

of Bangladesh in 1971. One of the reasons for both nations laying claim to Kashmir region is due to the pre-partition tourism industry in the region, as well as its strategic position, in that the source for all major rivers that flow through the Indian subcontinent are located there. Further contributions to the slow economic growth were onset by economic sanctions placed upon the country, following nuclear tests conducted by the nation in response to similar tests by India in 1998. Pakistan's economy is of great interest to the world, as it is one of the few LDC's capable of nuclear war, making it potentially very dangerous in that part of the world.

### **GDP Growth:**

When looking at GDP growth in Pakistan, it follows the trends for the rest of the South Asian region (barring India). There has been slow linear growth over the past 40 years, but it has been very minute when compared with India. This is slightly puzzling given the high amount of resources that Pakistan commands over the resources of other South Asian countries. In addition, the growth differentials between Pakistan (\$ 8.53 billion in 1960 versus \$ 81.06 billion in 2003, a growth of \$ 1.69 billion on average) and India (\$ 76.28 billion in 1960 versus \$ 543.70 billion in 2003, a growth of \$ 10.87 billion on average) is approximately 10 times greater, again surprising given the close starting points and resource endowments of the two nations.

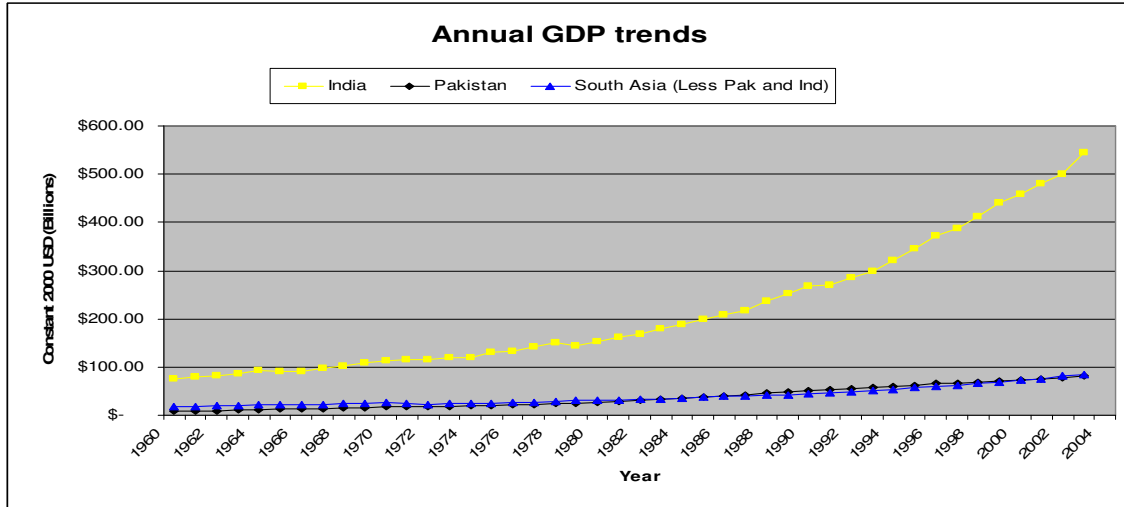


Figure 1.1 Source: World Development Indicators Online, World Bank, Washington, DC: 2000

GDP per capita in Pakistan has steadily been increasing as well (fig. 1.2) especially through the 1980's and early 90's, increasing from nearly \$ 300 to \$ 500. This number may come under criticism because of the political atmosphere at the time. General Zia-ul-Haq declared Martial law in the country in 1978 (for the second time in the nation's history after General Ayub Khan did the same in 1958). At the same time, the Soviet Union had invaded neighboring Afghanistan causing around 3 Million Afghans to migrate to Pakistan, causing a rise to the nation's labor input. Most of these people were not counted in per capita numbers however, because of their illegal existence, which continues on to this day. These shocks aside however, it has long been argued that democracy is a concept that Pakistan is unprepared for, given the suspension of the constitution in the 1960's and 1980's with the onset of martial law (as fig. 1.1 shows), has resulted in higher rates of increase in GDP per capita within those years.

Decade	Average GDP growth per Capita
1960-1970	4.769417556
1970-1980	1.51530094
1980-1990	3.4953185
1990-2000	1.42986328

Table 1.1 Source: World Development Indicators Online, World Bank, Washington, DC: 2000

As a matter of fact, table 1.1 contains the average % GDP growth rates per capita by decade in Pakistan, which clearly shows the dominance the Pakistani economy has had during military rule with growth rates as high as 4.5% per capita in the 60's (remembered by most Pakistani's as the "Golden Era" in their history with General Ayub Khan as the leader). It should also be mentioned that 1965 saw Pakistan's second war with neighboring India, regardless of which, the country managed to post increasing GDP growth.

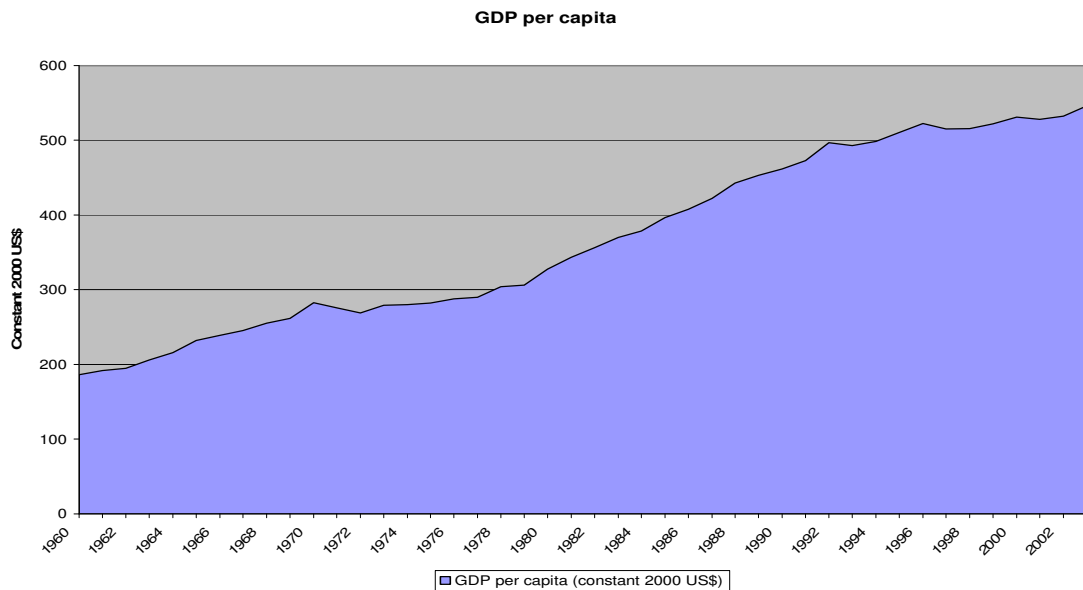
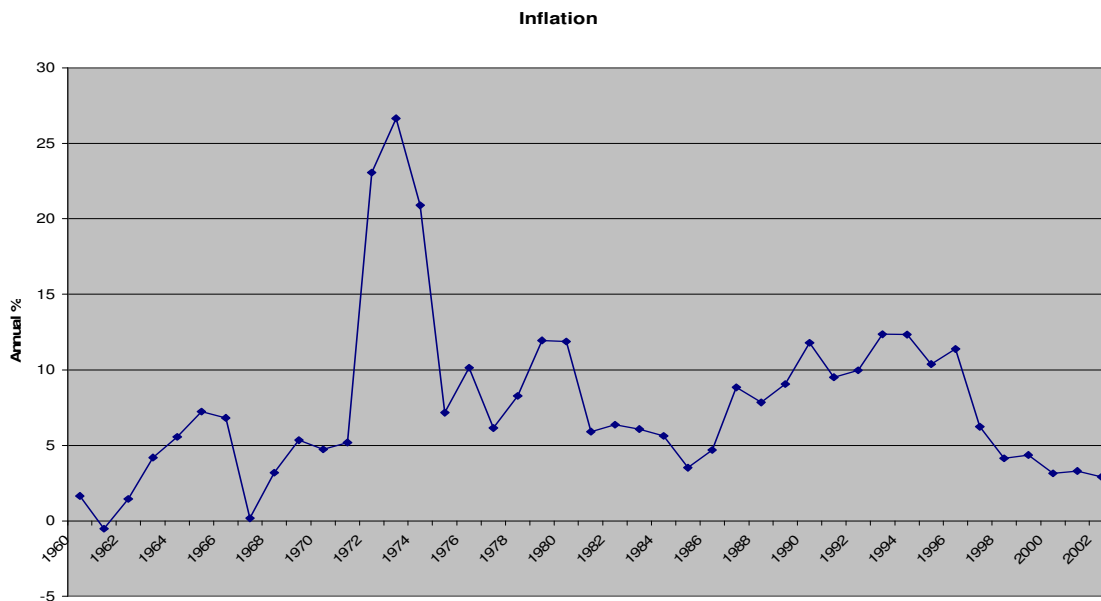


Figure 1.2 Source: *World Development Indicators Online*, World Bank, Washington, DC: 2000

Inflation in Pakistan again re-affirms the trend in the 1960's as being the most productive time in the nation's history with the all time low being hit in 1962 with - 0.08%. The highest was hit after the third war with India in 1971 with rates reaching as high as around 25% in 1974-75.



*Figure 1.3* Source: *World Development Indicators Online*, World Bank, Washington, DC: 2000

The following decades found inflation to be around 7-8% through the 1980's and around 11-12% through the 1990's, and seem to have begun strongly and stabilizing at 3-4% after the turn of the century, under yet another era of martial law under General Pervez Musharraf. Again, the economy of Pakistan responds quite quickly to regime changes, with military rule as the only regime in power long enough to make positive impacts on the economy.

### **Education:**

One of the biggest challenges that have been facing Pakistan since its inception, are those of human capital issues, specifically education. Thanks to colonization by the British, English has always been the main unofficial language of the country. To this end, most business and government dealings are conducted in English, causing further difficulties for the uneducated population (and hence further rifts between the social classes), predominantly in the rural areas, where farming and agriculture is the main

activity. Figure 2.1 compares the relative literacy rates between the four main South-East Asian countries, and shows Pakistan being the lowest, with Sri Lanka actually hitting the 90% mark over the decade covering 1988-1998. Literacy has been growing, however at the same rate as the other countries; though it has been argued that the nature of the low literacy rate is due to the low levels of education among women.

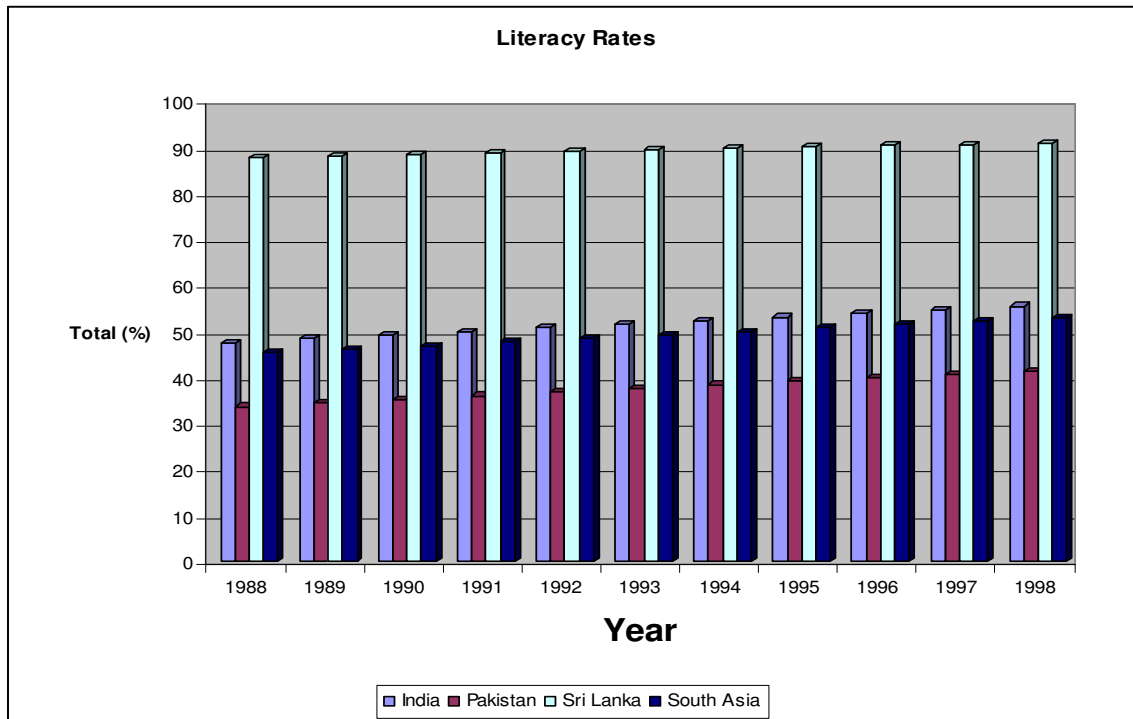


Figure 2.1 Source: World Development Indicators Online, World Bank, Washington, DC: 2000

Fig. 2.2 shows the relative literacy rates between men and women for the last three decades of the 20<sup>th</sup> century. Pakistan has been criticized by many HDC's for not doing more to promote literacy in women, where the culture has been dominated by hard-line Islamist views which frown upon women in the workplace. Those views had been challenged by the democratic election of Benazir Bhutto in 1988 and again in 1993 for Prime Minister, daughter of the former Prime Minister Zulfikar Ali Bhutto. She was also the first PM to tackle the issue of women's rights in Pakistan's history; however, she did not make much of an impact towards these issues, beyond promoting women in the

workplace, largely in urban areas, where the issue of women’s education is less predominant. As we can see from fig. 2.2, literacy rates have risen at the same rate (on average) between men and women in Pakistan, with the only exception in 1998 where women’s literacy rate rose while that of men actually fell 3 percentage points (data beyond 1998 was not available). In more contemporary times, women have become more common in the workplace in the urban sector, with sharp rises in employment of women prior to marriage. The reason for drop in employment by women after marriage (especially in the middle and upper classes in urban areas) is due to the patriarchal society of Pakistan. It will also be prudent to mention that women in Pakistan make up 48% of the population, with almost 75% of those currently employed, working in agriculture. Along with that, in 2000, only 1.79% of GDP was spend on education as compared to 4.11% by India and 5.74% by the US over the same period (www.worldbank.org).

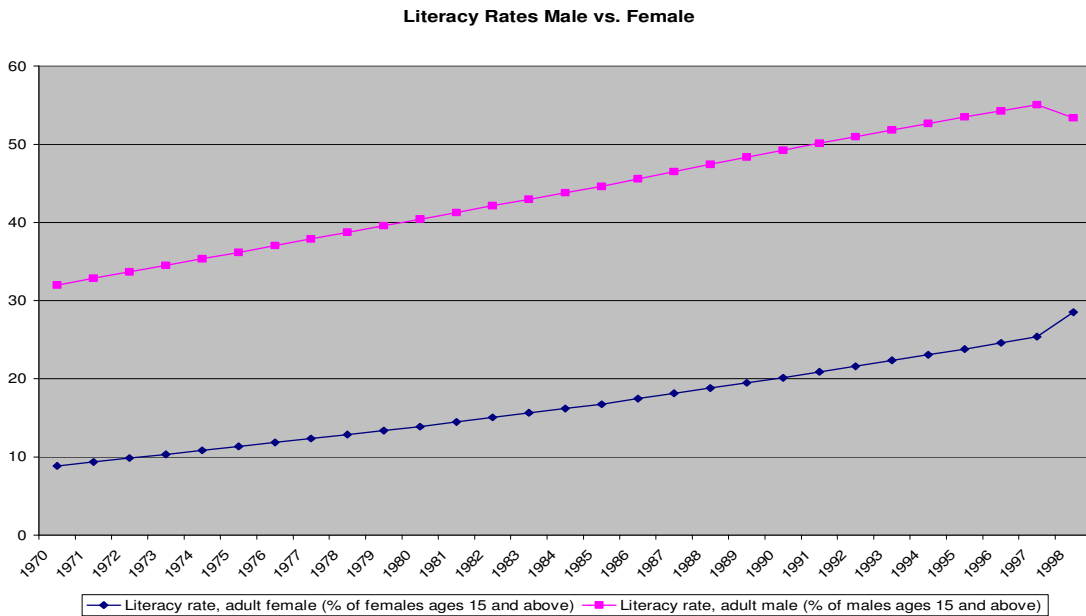
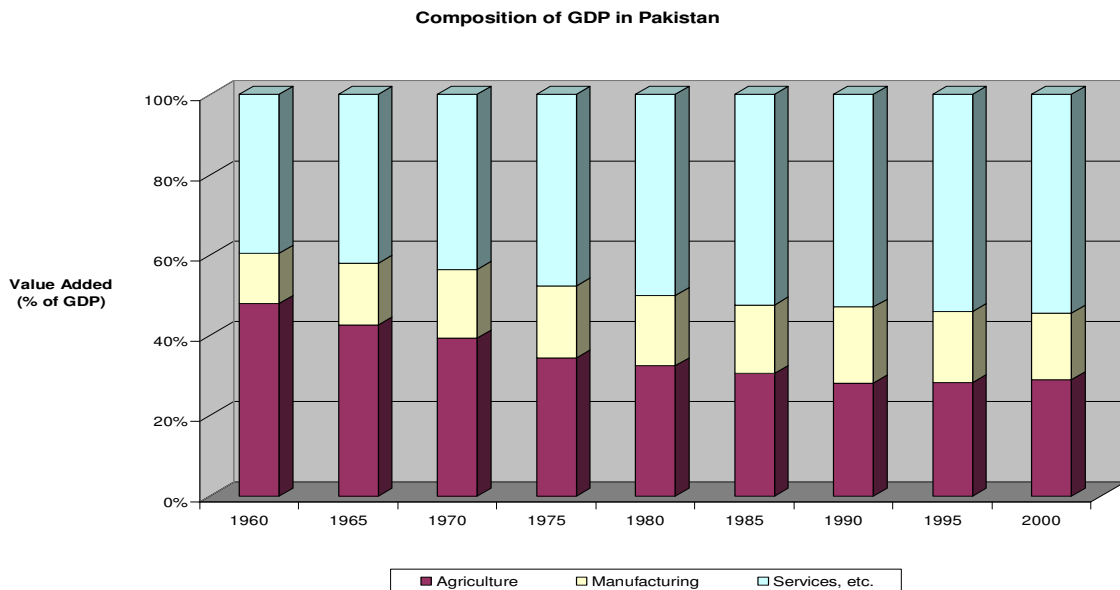


Figure 2.2 Source: World Development Indicators Online, World Bank, Washington, DC: 2000

The most obvious solution to increasing human capital levels, and thereby productivity, would be to increase spending levels on education, mostly in the rural areas, and provide incentives for increasing attendance to providers. Not only that, but the educational sector is ripe for reform in Pakistan, with the inequality of the provision of education being yet another reason to introduce educational reforms.

**Infrastructure:**

Fig. 3.1 shows the breakup of GDP in Pakistan in terms of value added by sector as a percentage of GDP between 1960 and 2000, with the major categories used being Agriculture, Manufacturing and Services. As seen from the graph, the composition of Pakistan’s GDP has shifted slowly over time, moving away from its initial dependency on agriculture, and portraying significant growth in the Services sector, with Manufacturing remaining relatively stable over time.



*Figure 3.1* Source: *World Development Indicators Online*, World Bank, Washington, DC: 2000

The Services sector is especially strong given the high amount of time spent shopping by the middle class, as well as given the high amount of the housewives in urban areas, where shopping is an integral part of the culture. It also speaks of the inequality between rural and urban sectors, with the Agricultural sector actually on the decline.

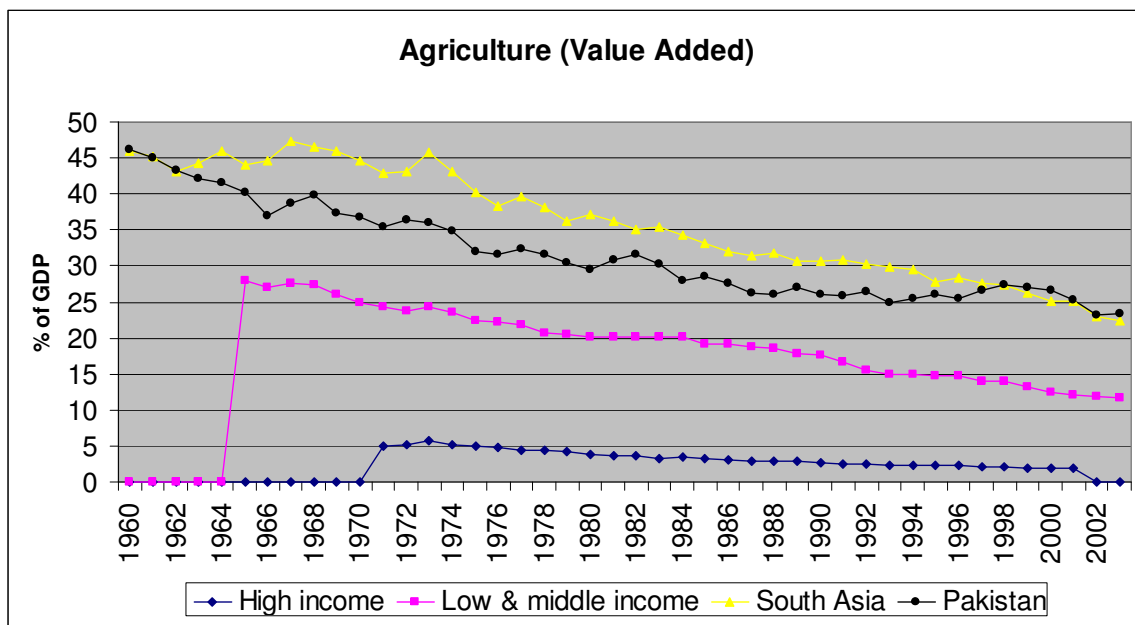


Figure 3.2 Source: *World Development Indicators Online*, World Bank, Washington, DC: 2000

Continuing on with the discussion of Agriculture in relation to GDP, while it is on the decline in Pakistan, figure 3.2 shows the value added by the Agricultural sector as compared to all of South Asia, and then the high and low income country aggregates respectively. Agriculture has been declining all over the world as most nations turn to manufacturing and services; however the disparity between HDC's and Pakistan is quite high indeed. In a human resource intensive country like Pakistan, however, policy-makers would do well to continue emphasis on agricultural development and

productivity, at least until the education levels have risen to a point to make the transition easier for the nation. The high population levels as well as declining birth rates overall, may eventually give rise to higher unemployment rates (7.8% in the year 2000 reported by Pakistan), greater inequality, and hence lower quality of life overall.

Figure 3.3 is especially telling of the strains the weak infrastructure of Pakistan’s economy has put on trade in the nation. It displays the major constraints that differing factors have put upon business dealings, as rated by managers surveyed in 2002 (2003 in India). The highest rating was given to the judicial system in the country, compared with India, displaying the severely low levels of confidence displayed by managers. This directly portrays the weakness the economy has had in upholding contracts, especially for small businesses with little to no political connections. The average time taken to enforce a contract was given as 395 day on average in 2004, compared to 250 in the United States for the same time frame ([www.worldbank.org](http://www.worldbank.org)).

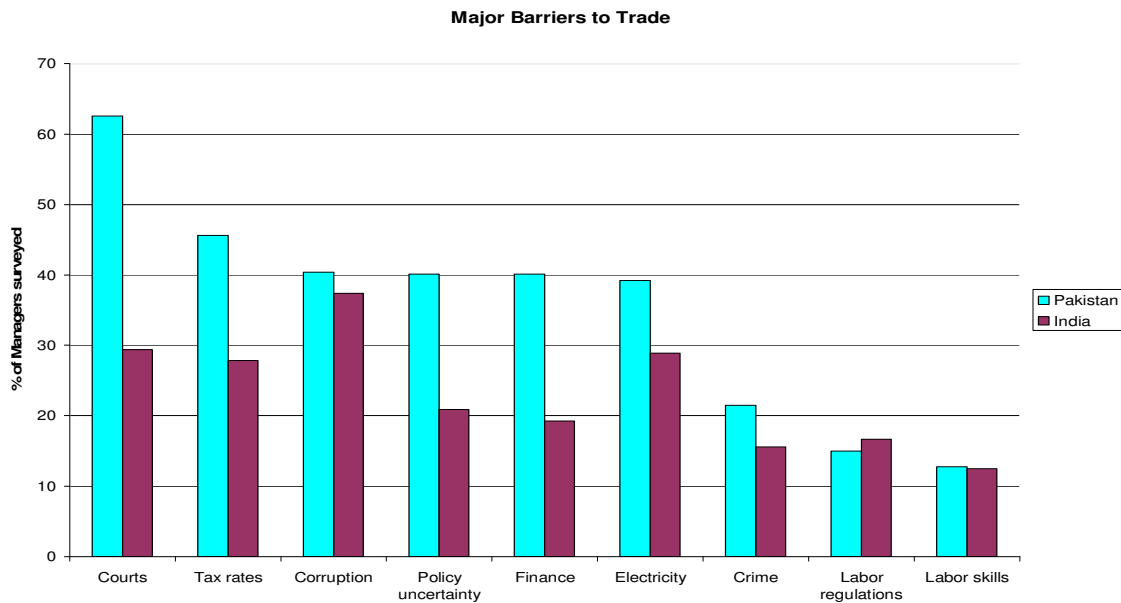


Figure 3.3 Source: *World Development Indicators Online*, World Bank, Washington, DC: 2000

Tax rates in Pakistan were the next in line as the second biggest constraint, followed by corruption. These two issues often go hand in hand in most LDC's, and also tend to display the power big businesses have over the small industries, causing large barriers to entry. Finance and policy uncertainty are next on the list with around 40% confidence levels, primarily due to the unstable political structure that has marred the economy, with martial law being the usual fallback plan after democracy fails to flourish. Labor regulations and skills are unsurprisingly the lowest on the list, due high factor inputs of labor given the extremely large population of the nation, as well as the high unemployment rates.

### **Conclusion:**

Overall, Pakistan's economy has shown some resiliency over time given the strife it has faced over its lifetime. Between three land wars with its closest neighbor, economic sanctions by HDC's over its nuclear program, extremely high levels of population and poverty, and internal political issues that have continually refused to let democracy prosper, it is perhaps a wonder that Pakistan has had minimal, yet sustainable, growth year over year. What the nation needs to focus on, with the information age, is primarily educating the women of the nation, as well as shedding its paternalistic nature. Why is this issue of utmost importance? Well, with 48% of its population being women, Pakistan has a huge level of an (as yet relatively) untapped resource, which can provide its' economy the boost that it requires. The key factor that works in the favor of the Pakistani's is mainly little to no language barriers, which allow communication between the HDC's and can provide it with the leverage it requires to out bid other nations in key

industries (most notably the IT sector, where India has already gotten a head start). It also needs to focus on its internal infrastructure, most importantly property rights, intellectual and otherwise, thereby boosting further confidence in the courts and leadership of the country, and hence raising investment and capital levels. Finally, the issue of utmost importance that Pakistan needs to tackle is that of education. It must increase spending in education, specifically in the rural areas and most importantly, to its women. By doing this it can further reduce birth rates, and reduce poverty over the long run, as well as gain higher levels of sustainable economic growth by tapping into a large pool of potential workers, as yet unassimilated in the workforce.

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